

## **EXHIBIT 22**

**Test Series 24**

# National Association of Securities Dealers, Inc.

GENERAL SECURITIES PRINCIPAL  
QUALIFICATION EXAMINATION  
(TEST SERIES 24)

## STUDY OUTLINE

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9513 Key West Avenue, Rockville, MD 20850



## STUDY OUTLINE

### NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. GENERAL SECURITIES PRINCIPAL QUALIFICATION EXAMINATION

The NASD General Securities Principal Qualification Examination (Test Series 24) is designed to test a candidate's knowledge of the rules and statutory provisions applicable to the management of a general securities broker/dealer. This study outline has been prepared to assist member firms in preparing candidates to sit for the examination. The outline is designed for use by course developers in the preparation of training material, for training directors in the development of lecture notes and seminar programs and for use by candidates themselves, both to structure their study and as a final review checklist prior to sitting for the examination. The General Securities Principal Qualification Examination and this study outline are composed of five general areas of supervision, which are listed below with the approximate percentage point value assigned to each area.

	General Area	Percentage Point Value
1.0	Supervision of Investment Banking Activities	20%
2.0	Supervision of Trading and Market-Making Activities	20%
3.0	Supervision of Brokerage Office Operations	22%
4.0	Sales Supervision, General Supervision of Employees, Regulatory Framework of NASD	26%
5.0	Compliance With Financial Responsibility Rules	12%

Detail on the content of each of these general areas of supervision is included in the text of the study outline which follows.

#### Structure of the Examination and Grading Procedures

The General Securities Principal Qualification Examination is composed of 125 multiple-choice questions covering all of the material in the following outline in accordance with the subject matter distribution shown above. A maximum of three hours testing time is allowed for candidates to complete the examination. The examination is graded on a 125 point system. Each multiple choice question is worth one

point. No credit is given for incorrect answers to these questions. The passing grade is equal to 70% of the total number of questions on the examination. Candidates will be required, therefore, to answer correctly 88 of the 125 questions on the General Securities Principal Qualification Examination in order to receive a passing grade. The results will identify the percentage performance of the candidate in each of the five general areas of the examination.

The examination is a closed book test and candidates will not be permitted to use any reference material during their testing session. Scratch paper will be provided to a candidate by the test administrator, but must be returned to the administrator at the end of the testing session. Electronic calculators may be used provided such devices have an independent power source, operate silently, no print mechanisms, and no alphabetical keys or programmable memory.

Questions used in the examination will be updated to reflect the most current interpretations of the rules and regulations on which they are based. Questions on new rules will be added to the pool of questions for this examination within a reasonable time period after their effective dates. Questions on rescinded rules will be promptly deleted from the pool of questions.

Below is a list of reference materials that may be used as a source-material starting point for course developers in preparing training programs. Much of the reference material overlaps topics covered in other references. It is, therefore, not necessary, to obtain each reference listed. In addition, non-member commercial training vendors offer packaged study courses specifically designed for this registration category. These vendors are often listed in local yellow page directories and advertise in securities industry periodicals.

Copies of this outline and registration applications may be obtained from NASD MediaSource or any of the NASD District Offices.

NASD MediaSource<sup>®</sup>  
9513 Key West Avenue  
Rockville, MD 20850  
(301) 590-6578

Throughout the outline, New York Stock Exchange rules have been cross-referenced to the appropriate NASD and SEC rules. In instances where the rules differ, explanatory notes highlight the requirements of

each rule. The Exchange rules listed in Section 2.2 will be tested. However, the rules referenced in other parts of the outline are provided for information purposes only. Test questions on the examination will be asked in terms of NASD or SEC rules.

At the end of this outline there are five sample questions written in the various formats used in the Series 24 test questions. These samples do not reflect the difficulty level of the test questions or the subject matter distribution of the test itself. Their use is to familiarize candidates with the types of multiple choice question formats used in the Series 24.

#### **Reference Materials**

*Appeal Securities Act Handbook*  
Appeal Printing Company  
130 Cedar Street  
New York, NY

*Code of Federal Regulations*  
Title 17—Commodity and Securities Exchanges  
Superintendent of Documents  
U.S. Government Printing Office  
Washington, DC 20402

*Federal Securities Law Reporter*  
Volumes 2 and 3  
Commerce Clearing House, Inc.  
4025 West Peterson Avenue  
Chicago, IL 60646

*National Association of Securities  
Dealers, Inc. Manual*  
Commerce Clearing House, Inc.

4025 West Peterson Avenue  
Chicago, IL 60646

*New York Stock Exchange, Inc. Manual*  
Commerce Clearing House, Inc.  
4025 West Peterson Avenue  
Chicago, IL 60646

*Regulation of Brokers, Dealers and Securities Markets*  
N. Wolfson, R.M. Phillips, and T.A. Russo  
Warren Gorham & Lamont Inc.  
210 South Street  
Boston, MA 02111

*Securities Credit Transactions  
Regulations X, G, T and U*  
Board of Governors of the Federal Reserve System  
Constitution Avenue at 20th Street, NW  
Washington, DC

*Securities Law Handbook*  
Harold Bloomenthal  
Clark Boardman Callahan  
375 Hudson Street  
New York, NY 10014

*Securities Regulation*  
Volume 2  
Prentice-Hall, Inc.  
Englewood Cliffs, NY 07632

## 1.0

## SUPERVISION OF INVESTMENT BANKING ACTIVITIES

1.1	<b>New Issue Market</b>		Indications of interest
1.1.1	<b>Underwriting Corporate Securities (negotiated)</b>		Final or statutory prospectus
			Opening and closing the books
1.1.1.1	Types of offerings	1.1.1.12	Shelf distributions
	Primary		Issuers may register to sell limited amounts of securities on a delayed basis for up to two years
	Secondary		Allows issuers and investment bankers the flexibility of matching financing needs to market conditions
1.1.1.2	Investigation of financing proposals		
	Preliminary study	1.1.1.13	Venture capital
	Letter of intent	1.1.1.14	Mergers and acquisitions
	General examination		Risk arbitrage
	Industry data		Leveraged buy-outs
	Operational data	1.1.1.15	Initial public offerings
	Management and employee relations		
	Financial data	1.2	<b>Securities Act of 1933 and SEC Rules Thereunder</b>
	Research, product development and expansion		
	Legal examination	1.2.1	<b>Section 2—Definitions under the Act</b>
1.1.1.3	Formation of the underwriting syndicate	1.2.1.1	Distribution of information during an underwriting
	Role of syndicate manager		Rule 134—Communications not deemed a prospectus
	Agreement among underwriters		Rule 137—Definition of "offers", "participates", or "participation" in Section 2(11) in relation to certain publications by persons independent of participants in a distribution
	Due diligence meeting		Rule 138—Definition of "offer for sale" and "offer to sell" in Sections 2(10) and 5(c) in relation to certain publications
	Blue skying the issue		Rule 144—Persons deemed not to be engaged in a distribution and therefore not underwriters
1.1.1.4	Types of underwriting commitments		Definitions
	Firm commitment		Conditions to be met
	Competitive bid or negotiated		Current public information
	Stand-by commitment		Holding period for restricted securities
	All or none		Limitation on amount of securities sold
	Best efforts		Manner of sale
	Mini-Max		Brokers' transactions
	Market-out clauses		Notice of proposed sale
1.1.1.5	Pricing of the issue		Bona fide intention to sell
	Determined on effective date of registration		Non-exclusive rule
	Indication of interest (underwriter's book)		Termination of certain restrictions on sale of restricted securities by persons other than affiliates
	Factors affecting price of issue		Rule 145—Reclassification of securities, mergers, consolidations and acquisitions of assets
	Consequences of sticky offerings		Transactions within the rule
1.1.1.6	Underwriters compensation		Communications not deemed a "prospectus" or "offer to sell"
	Components of underwriters spread		Persons and parties deemed to be underwriters
	Forms of compensation		Resale provisions for persons and parties deemed to be underwriters
	Stand-by commitments		Definition of "person"
1.1.1.7	Formation of the selling group		Form S-4 requirement
	Handled by managing underwriter	1.2.2	<b>Section 3—Exempted Securities</b>
	Selling group agreement	1.2.2.1	Rule 147—"Part of an issue", "person"
	Liabilities of selling group members vs. underwriters' liabilities		
1.1.1.8	Stabilization		
1.1.1.9	Syndicate penalty bid		
	Purpose		
	Denial of spread or concession on transaction		
	Penalty fees		
1.1.1.10	Hot issues and overallocation		
	Limitations on overselling		
	Pro-rata distribution of managing underwriter's short position losses among co-underwriters		
1.1.1.11	The public offering		
	Preliminary prospectus		
	Tombstone advertisements		

resident" and "doing business within" for purposes of Section 3(a)(11)	1.2.3.5.6	Rule 506—Exemption for limited offers and sales without regard to dollar amount of offering
Transactions covered		Exemption
Part of an issue		Conditions to be met
Nature of the issuer		General conditions
Offerees and purchasers, person resident		Specific conditions
Limitation of resales		Limitation on number of purchasers
Precautions against interstate offers and sales		Nature of purchasers
1.2.2.2 Regulation A—General exemptions	1.2.3.6	Rule 174—Delivery of prospectus by dealers; exemptions under Section 4(3) of the Act
Rule 251—Definition of terms		
Rule 254—Amount of securities exempted	1.2.4	<b>Section 5—Prohibitions Relating to Interstate Commerce and the Mails</b>
Rule 256—Filing and use of the offering circular	1.2.4.1	Rule 135—Notice of certain proposed offerings
Rule 258—Sales material to be filed	1.2.4.2	Rule 135A—Generic advertising
1.2.3 <b>Section 4—Exempted Transactions</b>	1.2.4.3	Rule 144A—Private resales of securities to institutions
1.2.3.1 Transactions by any person other than an issuer, underwriter or dealer	1.2.4.4	Regulation S—Rules governing offers and sales made outside the U.S. without registration under the Securities Act of 1933
1.2.3.2 Transactions by an issuer not involving any public offering		Rule 901—General statement
1.2.3.3 Transactions by a dealer		Rule 902—Definitions
1.2.3.4 Broker's transactions		Rule 903—Offers or sales of securities by the issuer, a distributor, and of their respective affiliates, conditions relating to specific securities
1.2.3.5 Regulation D—Rules governing the limited offer and sale of securities without registration under the Securities Act of 1933		Rule 904—Resales
1.2.3.5.1 Rule 501—Definitions and terms used in Regulation D	1.2.4.5	Rule 153A—Definition of "preceded by a prospectus" as used in Section 5(b)(2) of the Act, in relation to certain transactions requiring approval of security holders
Accredited investor	1.2.5	<b>Section 6—Registration of Securities and Signing of Registration Statement</b>
Affiliate	1.2.5.1	Regulation C—Registration
Aggregate offering price		Rule 415—Delayed or continuous offering and sale of securities (shelf registration)
Business combination		Form S-1 filing requirement
Calculation of number of purchasers		Rule 427—Contents of prospectuses used after nine months
Executive officer		Rule 430—Prospectus for use prior to effective date
Purchaser representative		Rule 460—Distribution of preliminary prospectus
1.2.3.5.2 Rule 502—General conditions to be met	1.2.6	<b>Section 7—Information Required in Registration Statement</b>
Integration	1.2.7	<b>Section 8—Taking Effect of Registration Statements</b>
Information requirements	1.2.7.1	Amendments to registration statements prior to and after effective date
Limitations on manner of offering	1.2.7.2	Stop orders
Limitations on resale	1.2.8	Form S-18 filing requirement
1.2.3.5.3 Rule 503—Filing of notice of sale	1.2.8.1	<b>Section 10—Information Required in Prospectus</b>
Filing Form D	1.2.8.2	Prospectus used more than nine months
1.2.3.5.4 Rule 504—Exemption for limited offers and sales of securities not exceeding \$1,000,000	1.2.9	Summary prospectus
Exemption		<b>Section 11—Civil Liabilities on Account of False Registration Statement</b>
Conditions to be met		
General conditions		
Specific conditions		
Limitation on aggregate offering price		
1.2.3.5.5 Rule 505—Exemption for limited offers and sales of securities not exceeding \$5,000,000		
Exemption		
Conditions to be met		
General conditions		
Specific conditions		
Limitation on aggregate offering price		
Limitation on number of purchasers		
Disqualifications		



1.2.10	Section 12—Civil Liabilities Arising in Connection with Prospectuses and Communications	1.3.3.3	Rule 13d-1—Filing of Schedules 13D and 13G
1.2.11	Section 15—Liability of Controlling Persons	1.3.3.4	Rule 13e-3—Going private transactions by certain issuers or their affiliates Schedule 13E-3 filing requirement
1.2.12	Section 17—Fraudulent Interstate Transactions	1.3.3.5	Rule 13e-4—Tender offers by issuers Schedule 13E-4 filing requirement
1.2.13	Section 23—Unlawful representations	1.3.4	<b>Regulation E</b>
1.3	Securities Exchange Act of 1934 and SEC Rules Thereunder	1.3.4.1	Rule 14e-1—Unlawful tender offer practices
1.3.1	Section 10—Regulation of the Use of Manipulative and Deceptive Devices	1.3.4.2	Rule 14e-3—Transactions in securities on the basis of material, non-public information in the context of tender offers
1.3.1.1	Section 10(b)—Use or employment of manipulative or deceptive devices	1.3.4.3	Rule 14e-4—Prohibited transactions in connection with partial tender offers
1.3.1.1.1	Rule 10b-2—Solicitation of purchases on an exchange to facilitate distribution of securities	1.3.5	<b>Section 15—Registration and Regulation of Brokers and Dealers</b>
1.3.1.1.2	Rule 10b-6—Prohibition of trading by persons interested in a distribution	1.3.5.1	Section 15(c)(1)—Manipulative, deceptive or fraudulent devices or contrivances
1.3.1.1.3	Rule 10b-7—Stabilizing to facilitate a distribution Scope of rule Definitions Transactions must be necessary Priority must be granted Control of stabilizing Stabilizing at prices resulting from unlawful activity Stabilizing prohibited in offerings at the market Stabilizing securities traded in more than one market Entering stabilizing bid on an exchange prior to opening Stabilizing levels Disclosure of stabilizing Recordkeeping requirements Limitation of liability Exempted securities Exempted transactions	1.3.5.1.1	Rule 15c1-8—Sales at the market
		1.3.5.1.2	Rule 15c1-9—Use of pro forma balance sheets
		1.3.5.2	Section 15(c)(2)—Fraudulent acts or practices and fictitious quotations
		1.3.5.2.1	Rule 15c2-4—Transmission or maintenance of payments received in connection with underwritings
		1.3.5.2.2	Rule 15c2-8—Delivery of prospectus Preliminary prospectus Final prospectus Delivery to associated persons Delivery to other broker/dealers by managing underwriter
		1.3.5.3	Section 15(d)—Reports of registrants under the Securities Act of 1933
		1.3.5.3.1	Rule 15d-11—Current reports of Form 8-K
		1.3.5.3.2	Rule 15d-13—Quarterly reports on Form 10-Q
		1.3.5.3.3	Rule 15d-17—Reports on Form 10-C by issuers of securities quoted on the Nasdaq interdealer quotation system
1.3.1.1.4	Rule 10b-8—Distribution through rights	1.3.6	<b>Section 16—Reports of Directors, Officers and Principal Stockholders</b>
1.3.1.1.5	Rule 10b-9—Prohibited representations in connection with certain offerings	1.3.6.1	Rule 16a-1—Filing of statement
1.3.1.1.6	Rule 10b-13—Prohibiting other purchases during tender offer or exchange offer	1.3.6.1.1	Form 3—Initial statement of beneficial ownership of securities
1.3.1.1.7	Rule 10b-18—Purchases of certain equity securities by the issuer and others	1.3.6.1.2	Form 4—Statement of changes in beneficial ownership of securities
1.3.1.1.8	Rule 10b-21—Short selling in connection with a public offering	1.3.6.1.3	Form 10C—Filing requirements
1.3.2	<b>Section 12—Registration Requirements for Securities</b>	1.3.7	<b>Section 17—Accounts and records, Reports, Examinations of Exchanges, Members and Others</b>
1.3.2.1	Section 12(a)—Exchange listed securities	1.3.7.1	Section 17(a)(1)—General requirements for the maintenance of records and report filing as prescribed by SEC
1.3.2.2	Section 12(g)—Registration of issuers engaged in interstate commerce	1.3.7.1.1	Rule 17a-2—Recordkeeping requirements relating to stabilizing activities Scope of rule Definitions Records required to be maintained by manager
1.3.2.3	Section 12(j)—Suspension or revocation of registration		
1.3.2.4	Section 12(k)—Suspension on trading		
1.3.3	<b>Section 13—Periodical and Other Reports</b>		
1.3.3.1	Rule 13a-11—Current reports on Form 8-K		
1.3.3.2	Rule 13a-13—Quarterly reports in Form 10-Q		

	Notification of manager		Power of the Board of Governors
1.4	<b>National Association of Securities Dealers—Regulations</b>	1.4.3	<b>Code of Procedure</b>
1.4.1	<b>Schedules to the By-Laws</b>	1.4.3.1	Article XII—Code of procedure for corporate financing and direct participation program matters
1.4.1.1	Schedule E—Distribution of securities of members and affiliates		Purpose
	Definitions		Application by aggrieved member
	Participation in distribution of securities of member or affiliate		Application for review
	Suitability		Notice of hearing
	Discretionary accounts		Hearing committee and procedure
	Sales to employees		Requirement for written determination
			Review by committee of Board
			Nature of determination
1.4.2	<b>Article III—Rules of Fair Practice</b>	1.4.4	<b>Uniform Practice Code</b>
1.4.2.1	Section 1—Business conduct of members	1.4.4.1	Section 66—Settlement of syndicate accounts
	Free-riding and withholding		Definitions
	Introduction		Final settlement
	Interpretation		
	Scope and intent of interpretation	1.4.4.2	Section 67—Settlement of underwritten public offerings
	Sales by issuers in conversion offerings		
	Definitions	1.5	<b>Investment Company Act of 1940 and SEC Rules Thereunder</b>
	Conditions for exemption		
	Sales to members, associated persons of members and certain related persons	1.5.1	<b>Section 3—Definition of Investment Company</b>
	Sales to other restricted persons	1.5.2	<b>Section 4—Classification of Investment Companies</b>
1.4.2.2	Section 7—Disclosure of price in selling agreements	1.5.2.1	Unit investment trust
1.4.2.3	Section 8—Securities taken in trade	1.5.2.2	Management company
	Definition	1.5.3	<b>Section 5—Subclassification of Management Companies</b>
	Compliance with requirements relating to fair market price of securities taken in trade	1.5.3.1	Open-end company
	Maintenance of records of bid and ask quotations	1.5.3.2	Closed-end company
1.4.2.4	Section 16—Offerings “at the market”	1.5.3.3	Diversified company
1.4.2.5	Section 17—Solicitation of purchases on an exchange to facilitate a distribution of securities	1.5.3.4	Non-diversified company
1.4.2.6	Section 23—Net prices to persons not in investment banking or securities business	1.5.4	<b>Section 8—Registration of Investment Companies</b>
1.4.2.7	Section 24—Selling concessions	1.5.4.1	Section 8(b)—Filing requirements for investment companies
	Discounts or allowances must be paid only to broker/dealer for services rendered in distribution		Form N-1A—Registration statement of open-end management investment companies
	Definition of “bona fide research”	1.5.5	<b>Section 12—Functions and Activities of Investment Companies</b>
	Required written agreements	1.5.5.1	Prohibitions
	Quarterly reports to be filed		Purchases on margin
	Maintenance of records for 24 months		Participation in joint trading accounts
1.4.2.8	Section 34—Direct Participation Programs		Short sales
	Appendix F	1.5.5.2	Rule 12b-1—Distribution of shares by registered open-end management investment company
	Application of Appendix F		Disclosure of payment for distribution of funds from assets
	Definitions		Statement of additional information
	Suitability	1.5.6	<b>Section 13—Changes in Investment Policy</b>
	Disclosure	1.5.6.1	Majority vote of shareholders
	Organization and offering expenses		Change of subclassification
	Participation in rollups		Borrowing; issuing or underwriting securities; purchasing or selling real estate; making loans
1.4.2.9	Section 36—Transactions with related persons		Deviation from investment or other policy
1.4.2.10	Section 44—The corporate financing rule — Underwriting terms and arrangements		
	Definitions		
	Filing requirements		
	Underwriting compensation and arrangements		

	Change in nature of business		22(d) for certain registered separate accounts
1.5.7	<b>Section 15—Investment Advisory and Underwriting contracts</b>	1.5.10.3	Section 22(e)—Suspension of rights of redemption
1.5.7.1	Investment advisors		Rule 22e-1—Exemption from Section 22(e) during annuity payment period of variable annuity contracts participation in certain registered separate accounts
1.5.7.2	Underwriter		
1.5.7.3	Approval by board of directors	1.5.11	<b>Section 30—Periodic and Other Reports: Reports of Affiliated Persons</b>
1.5.8	<b>Section 16—Changes in Board of Directors: Provisions Relative to Strict Trusts</b>	1.5.11.1	Rule 30a-1—Annual reports (requirement to file)
1.5.8.1	Election by shareholders	1.5.11.2	Rule 30d-1—Reports to stockholders of management companies
1.5.9	<b>Section 19—Dividends</b>	1.6	<b>Trust Indenture Act of 1939</b>
1.5.9.1	Accumulated undistributed net income	1.6.1	<b>Purpose</b>
1.5.9.2	Current net income	1.6.2	<b>Necessity of trustee to safeguard the rights of investors in registered debt obligations</b>
1.5.9.3	Statement disclosing source of payment	1.6.3	<b>Identification of rights and powers of trustee</b>
	Rule 19a-1—Written statement to accompany dividend payments by management companies	1.6.4	<b>Full disclosure of information in bond indentures</b>
1.5.9.4	Distribution of long-term capital gains	1.6.5	<b>Participation of trustees in the preparation of indentures</b>
	Rule 19b-1—Frequency of distribution of capital gains	1.7	<b>Uniform State Law</b>
1.5.10	<b>Section 22—Distribution, Redemption and Re-Purchase of Redeemable Securities</b>	1.7.1	<b>Definitions Under the Act</b>
1.5.10.1	Section 22(c)—Regulation of underwriters and dealers by Commission	1.7.1.1	Issuer
	Rule 22c-1—Pricing of redeemable securities for distribution, redemption and re-purchase	1.7.1.2	Security
1.5.10.2	Section 22(d)—Persons to and through whom redeemable securities may be sold (offer securities at a price based on NAV)	1.7.2	<b>Registration of Securities</b>
	Rule 22d-1—Exemption from Section 22(d) to permit sales of redeemable securities at prices which reflect net sales loads	1.7.2.1	Registration requirements
	Rule 22-d2—Exemption from Section	1.7.2.2	Types of securities registration
		1.7.2.3	Exempt securities
		1.7.2.4	Exempt transactions

## 2.0

## SUPERVISION OF TRADING AND MARKET MAKING ACTIVITIES

## 2.1 OTC Markets

## 2.1.1 Overview of the market

## 2.1.1.1 Nasdaq market

Trading in non-exchange securities in  
Non-Nasdaq OTC or Bulletin Board  
Pink sheets

## Third Market

Trading in exchange listed securities  
in OTC market  
Consolidated tape 90 second report  
requirement

## Fourth Market

Private transactions between  
institutional investors without the use  
of a broker/dealer

## 2.1.2 The Nasdaq Stock Market

## 2.1.2.1 Types of service

## 2.1.2.1.1 Level 1 service

Generally available through public  
vendors  
Displays highest bid and lowest ask  
(inside market) for each authorized  
security

## 2.1.2.1.2 Level 2/Level 3 service

Available only to NASD approved  
subscribers  
Displays bid/ask quotations and  
quotation sizes for all registered  
market makers entering quotes on  
each authorized security  
Enables registered market makers to  
enter bid/ask quotations and  
quotation sizes on the system, for only  
those securities it has been authorized  
to enter quotes

## 2.1.2.1.3 SelectNet

Enables registered market makers to  
negotiate trades, including  
counteroffers and broadcasts of orders  
to all market makers in a security  
Available only for agency or principal  
orders that are greater than the SOES  
tier size  
Allows market makers to execute  
partial orders at their discretion

2.1.2.1.4 Automated Confirmation Transaction  
Service (ACT Rules)

Primary vehicle for reporting over  
the-counter transactions in equity  
securities (Nasdaq national market,  
Nasdaq Small-Cap and exchange  
listed securities)  
Schedule D to the NASD By-Laws  
Part XIII—Reporting transactions  
in Nasdaq Small-Cap securities

2.1.2.2 Nasdaq qualifications for authorized  
securities

## 2.1.2.2.1 Listing requirements

General factors (numerical values not  
tested)  
At least two registered and active

market makers

Total assets

Capital and surplus

Principal outstanding of

convertible debt securities

Common stockholders

Publicly held shares

Submission of audited financial reports  
and documents

2.1.2.2.2 Maintenance requirements for continual  
listing

2.1.2.2.3 Schedule D to the NASD By-Laws

Part I—Definitions

Part II—Qualification requirements for  
Nasdaq securities

Domestic securities and Canadian  
securities

Suspension or termination of

inclusion of a security and

exceptions to inclusion criteria

Use of the Nasdaq system on a test  
basis

Trading halts

Part XI—Procedures for access to the  
Nasdaq system by non-Nasdaq market  
makers

2.1.2.2.4 Nasdaq quotation publication and  
dissemination

Schedule D to the NASD By-Laws

Part V—Publication and  
dissemination of quotations to the  
news media

National Market System list

Additional list

NASD local quotation program

2.1.3 ADR's and Foreign Securities

2.1.3.1 Origin and nature of ADR's

Duties of the issuing/depository bank

Converts and distributes rights  
offerings

Distributes information on non-U.S.  
corporate developments

2.1.3.2 Purpose of issuing these securities versus  
trading the foreign securities directly

2.1.3.3 Shareholders' rights to demand delivery of  
the underlying shares

2.1.3.4 Provides shareholders with annual balance  
sheet and operations statement

2.1.3.5 Coordination of regulatory activities with  
issuer's principal marketplace

2.1.3.6 Qualification requirements of Schedule D of  
the NASD By-Laws

2.1.4 Nasdaq National Market System (NMS)

2.1.4.1 Issuer designation criteria (general  
understanding, numerical values not tested)

Minimum for:

Annual net income

Price per share

Market value of publicly held shares

Higher minimum requirements compared

	to Nasdaq inclusion for:		an exchange has suspended trading in a security
	Capital surplus		
	Number of publicly held shares	2.1.7.3	Schedule D to the NASD By-Laws
	Non-quantitative criteria		Part VII—Consolidated Quotation Service (CQS)
	Minimum of two independent directors		Normal business hours
	Maintain an audit committee		Withdrawal of quotations
	Provide shareholders with quarterly and annual reports		Voluntary termination of registration
	Solicit proxies for all shareholders' meetings		Suspension and termination of quotations by association action
	Hold annual shareholders' meeting	2.1.8	<b>Market Maker Activities</b>
	Execute listing agreement with NASD	2.1.8.1	Firm quotes
2.1.4.2	Schedule D of the NASD By-Laws	2.1.8.2	Subject quotes
	Part III—Designation of Nasdaq national market system security	2.1.8.3	Otherwise qualified
	Part XII—Reporting transactions in Nasdaq National Market designated securities		One-sided market
			Bid or offer wanted
2.1.5	<b>NASD Small Order Execution System (SOES)</b>	2.1.8.4	Stabilizing bids
2.1.5.1	SOES rules		Pre-effective bids
	Definitions		Penalty bids
2.1.5.2	SOES service enables participants to	2.1.8.5	Determination of spread
	Execute transactions of limited size in active SOES authorized securities		Financial condition of issuer
	"Lock-in" transactions by automatically sending both sides of the applicable clearing corporation for clearance and settlement		Size of issue
	Have reports of the transactions automatically forwarded to the National Market Trade Reporting System for dissemination to the public		Activity in issue
	Splitting orders		Market conditions
2.1.6	<b>Non-Nasdaq OTC Securities</b>		Maximum allowable spreads
2.1.6.1	Schedule H to the NASD By-Laws	2.1.8.6	Types of customer business
	Definitions		Retail
	Non-Nasdaq security		Institutional
	Non-Nasdaq reporting system	2.1.8.7	Nasdaq market makers
	Price and volume reporting		Registration requirements
	Automated submission of trade data		NASD member
2.1.6.2	OTC Bulletin Board		Minimum net capital requirements
	Allows participants to enter, update, retrieve quotation information on non-Nasdaq OTC stocks on real-time basis	2.1.8.8	Quotation requirements (general knowledge)
	Displays firm and non-firm price quotations		Continuous two-sided quotes for each security
	Displays unpriced indications of interest		Firm quotations for at least a normal unit of trading
	Displays telephone numbers of participating market makers in specified securities		Quotations reasonably related to the market
2.1.7	<b>Consolidated Quotation Service (CQS)</b>		Limits for maximum allowable spreads
2.1.7.1	CQS securities	2.1.8.9	Daily and monthly volume reports
	NYSE and ASE listed securities	2.1.8.10	Schedule D to the NASD By-Laws
	Certain securities listed on regional exchanges		Part VI—Requirements applicable to Nasdaq market makers
	Securities registered or admitted to unlisted trading privileges on the national exchanges		Registration as a Nasdaq market maker
2.1.7.2	CQS service		Character of quotations
	Displays bid/ask quotation sizes for CQS securities entered by exchanges and/or CQS market makers		Stabilizing bids
	A "halt" notation will be displayed when		Automated submission of trading data
			Reports
			Normal business hours
			Clearance and settlement
			Withdrawal of quotations
			Voluntary termination of registration
			Suspension and termination of quotations by Association action
			Termination of Nasdaq service
			Part VII—Consolidated Quotation Service (CQS)
			Registration as a CQS market maker
			Obligations of CQS market makers
		2.1.8.11	SOES rules
			SOES participant registration
			Participant obligations in SOES

Registration	By account
Market makers	Orders subject to SEC Rule 11a-1-T
SOES order entry firms	2.2.3.16 Rule 411—Erroneous reports
Clearance and settlement	2.2.3.17 Rule 435—Miscellaneous prohibitions
Obligation to honor system trades	Excessive trading by members
Compliance with rules and registration requirements	Successive transactions by members
Fees applicable to SOES	Manipulative operations
2.1.9 Non-Nasdaq Market Makers	Circulation of rumors
2.1.9.1 Schedule D to the NASD By-Laws	Reopening a contract
Part XI—Procedures for access to the Nasdaq system by non-Nasdaq market makers	Loans for account of non-members
2.2 Domestic and Exchange Markets	2.2.3.18 Rule 450—Restriction on giving proxies
2.2.1 Listing Criteria (general understanding, numerical values not tested)	2.2.4 Consolidated Tape Network
2.2.1.1 Minimum listing standards	2.2.4.1 Reports all executions of exchange-listed securities, regardless of where the transactions occurred
2.2.1.2 NYSE Listed Company Manual	2.2.4.2 Use of the tape for price information
2.2.2 The Auction Market	2.2.4.3 Reports of third market activity
2.2.2.1 Trading post	2.3 International Markets
2.2.2.2 Floor broker (member)	2.3.1 Nasdaq International Service Rules
2.2.2.3 Role of the specialist	Applicability
Maintains the limit order book	Definitions
"Stops" stock	Normal business hours
Agent vs. principal functions of specialist	Qualified securities
Arranges buy and sell orders at the opening of daily trading to orchestrate a balanced price	Access
2.2.2.4 Automated trading systems (DOT, PACE, AUTO, AMOS, SCOREX)	Requirements applicable to market makers
2.2.2.5 Types of orders	Automated submission of trading data
2.2.2.6 Block trading	Reports
2.2.3 New York Stock Exchange Regulations	Clearance and settlement of international transactions
2.2.3.1 Rule 60—Dissemination of quotation	Suspension and termination of quotations by NASD action
2.2.3.2 Rule 61—Recognized quotations	Termination of access
2.2.3.3 Rule 76—"Crossing" orders	Transaction reporting requirements
2.2.3.4 Rule 77—Prohibited dealings and activities	Audit trail requirements
2.2.3.5 Rule 78—Sell and buy orders coupled at same price	2.3.2 Schedule I to the NASD By-Laws—PORTAL Market Rules
2.2.3.6 Rule 92—Limitations on member trading because of customer's orders	Part I—Definitions
2.2.3.7 Rule 97—Limitations on members trading because of block positioning	Part II—Requirements applicable to PORTAL securities
2.2.3.8 Rule 104—Dealings by specialists	Part III—Requirements applicable to PORTAL dealers and PORTAL brokers
2.2.3.9 Rule 127—Block positioning	Part IV—Requirements applicable to PORTAL qualified investors
2.2.3.10 Rule 165—Marking to the market	Part V—Denial, suspension or termination procedures
2.2.3.11 Rule 175—Extension or postponement of contracts (settlement)	Part IV—PORTAL market transactions
2.2.3.12 Rule 390—Market responsibility rule	Part VII—Rules of fair practice
2.2.3.13 Rule 393—Secondary distributions (general understanding)	Part VIII—Arbitration
2.2.3.14 Rule 396—Off-floor transactions in bonds	2.3.3 International Stock Exchange—SEAQ/TOPIC/U.S. Nasdaq satellite link
"Nine bond" rule	2.3.4 Stock Exchange of Singapore (SEDAQ)/U.S. Nasdaq link
2.2.3.15 Rule 410—Records of orders	2.3.5 Directing orders through foreign affiliates for execution on foreign exchanges
Transmitted to floor	2.4 Securities Exchange Act of 1934 and SEC Rules Thereunder
Carned to floor	2.4.1 Section 3—Certain Definitions Under the Act
Cancellation	2.4.1.1 Section 3(a)(23)(A)—Definition of "clearing agency"
	2.4.1.2 Section 3(a)(38)—Definition of "market maker"



2.4.1.3	Section 3(a)(51)—Definition of "penny stock" Rule 3a51-1—Definition of penny stock	to brokers or dealers Rule 15g-5—Disclosure of compensation of associated persons in connection with penny stock transactions Rule 15g-6—Account statements for penny stock customers
2.4.1.4	Section 3(b)—Other definitions under the Act Rule 3b-1—Definition of "listed" Rule 3b-8—Definitions of "qualified OTC market maker," "qualified third market maker," and "qualified block positioner"	
2.4.2	<b>Section 11—Trading by Members of Exchanges, Brokers and Dealers</b>	<b>2.5 National Association of Securities Dealers—Regulations</b>
2.4.2.1	Rule 11-a—Regulation of floor trading	<b>2.5.1 Rules of Fair Practice</b>
2.4.2.2	Rule 11a1-1(T)—Transactions yielding priority, parity and precedence	2.5.1.1 Section 1—Business conduct of members Execution of retail transactions in the over-the-counter market Best execution Third party transactions
2.4.2.3	Rule 11a1-2—Transactions for certain accounts of associated persons of members	2.5.1.2 Section 4—Fair prices and commissions NASD Mark-Up Policy Interpretation General considerations Relevant factors Transactions to which the Policy is applicable Transactions to which the Policy is not applicable
2.4.2.4	Rule 11a-1-3(T)—Bona fide hedge transactions in certain securities	
2.4.2.5	Rule 11a-1-4(T)—Bond transactions on national securities exchanges	2.5.1.3 Section 5—Publication of transactions and quotations Manipulative and deceptive quotations Marking the close
2.4.2.6	Rule 11a-1-5—Transactions by registered competitive market maker and registered equity market makers	2.5.1.4 Section 6—Offers at stated prices Policy with respect to firmness of quotations
2.4.2.7	Rule 11a2-2(T)—Transactions effected by exchange members through other members	2.5.1.5 Section 41—Short sales in Nasdaq securities
2.4.3	<b>Section 11A—National Market System for Securities</b>	2.5.1.6 Section 42—Trading halts in Nasdaq securities
2.4.3.1	Rule 11Aa2-1—Designation of national market system securities Definitions	<b>2.5.2 Fixed Income Pricing System Rules (FIPS rules)</b>
2.4.3.2	Rule 11Aa3-1—Dissemination of transaction reports and last sale data with respect to transactions in reported securities	2.5.2.1 Part 1—Definitions
2.4.3.3	Rule 11Ac1-1—Dissemination of quotation for reported securities Purpose Obligations of responsible brokers and dealers Communication of quotations and quotation sizes Execution of published quotations and quotation sizes Revised quotation size Revised quotations	2.5.2.2 Part 2—Designation of securities quoted in the fixed income pricing system
2.4.4	<b>Section 15—Registration and Regulation of Brokers and Dealers</b>	2.5.2.3 Part 3—Quotation requirements for fixed income pricing system
2.4.4.1	Section 15(c)(2)—Fraudulent acts or practices and fictitious quotations Rule 15c2-6—Sales practice requirements for certain low priced securities Rule 15c2-7—Identification of quotations Rule 15c2-11—Initiation or resumption of quotations with specified information	2.5.2.4 Part 4—Reporting transactions in high yield bonds
2.4.4.2	Section 15(g)—Requirements for transactions in penny stocks Rule 15g-1—Exemptions for certain transactions Rule 15g-2—Risk disclosure document relating to the penny stock market Rule 15g-3—Broker or dealer disclosure of quotations and other information relating to the penny stock market Rule 15g-4—Disclosure of compensation	2.5.2.5 Part 5—Dissemination of quotation and transaction information
		2.5.2.6 Part 6—Compliance with FIPS rules and trade reporting requirements
		<b>2.5.3 Code of Procedure</b>
		Article IX—Procedures on grievances concerning the automated systems Section 1—Purpose Section 2—Form of application Section 3—Request for hearing Section 5—Decision Section 6—Review by the Nasdaq hearing review committee Section 7—Findings of the Nasdaq hearing review committee on review Section 8—Discretionary review by the Board Section 9—Application to Commission for review

2.5.4	<b>Broker-to-Broker Clearing Procedures</b>		Delayed delivery
2.5.4.1	Contract sheet		Prior to delivery date
2.5.4.2	Netted trades		Time and place of delivery
2.5.4.3	Continuous net settlement	2.5.5.12	Section 16—Units of delivery—stocks
2.5.4.4	Money settlement	2.5.5.13	Section 17—Units of delivery—bonds
2.5.4.5	Trade Acceptance & Reconciliation System (TARS)	2.5.5.14	Section 17A—Units of delivery—unit investment trust securities
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2.5.4.7	Comparison sheet or ticket	2.5.5.16	Section 19—Delivery of securities with draft attached
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2.5.4.9	Firm must be member of one of the following clearing corporations which participates in TARS	2.5.5.18	Section 21—With irregularities
	National Securities Clearing Corporation	2.5.5.19	Section 26—Delivery of mutilated securities (NYSE Rules 223 and 224)
	Midwest Clearing Corporation		
	Philadelphia Clearing Corporation	2.5.5.20	Section 29—Assignments and powers of substitution; delivery of registered securities
	Pacific Clearing Corporation		
2.5.4.10	Depository Trust Company	2.5.5.21	Section 36—Certificate in name of deceased person, trustee, etc.
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	Exchange effected by computerized bookkeeping entries	2.5.5.22	Section 46—Computation of interest (NYSE Rule 243)
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	Participant contribution based on processing activity	2.5.5.23	Section 48—Due-bills and due-bill checks (NYSE Rule 255)
	Interest earned is transferred to participant	2.5.5.24	Section 49—Claims for dividends, rights, interest, etc.
2.5.5	<b>Uniform Practice Code</b>	2.5.5.25	Section 50—Transfer fees (NYSE Rule 182)
2.5.5.1	Section 1—Score of Uniform Practice Code	2.5.5.26	Section 51—Reclamations and rejections
2.5.5.2	Section 2—Uniform Practice committees	2.5.5.27	Section 52—Uniform reclamation form
2.5.5.3	Section 3—Definitions	2.5.5.28	Section 53—Time for delivery on reclamation and manner of settlement
2.5.5.4	Section 4—When, as and if issued/distributed contracts (NYSE Rule 63)	2.5.5.29	Section 56—Irregular delivery; transfer refused; lost or stolen securities
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2.5.5.7	Section 7—"Ex" liquidating payments	2.5.5.32	Section 60—"Selling-out" (NYSE Rule 283)
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## 3.0

## SUPERVISION OF BROKERAGE OFFICE OPERATIONS

3.1	<b>Client Accounts</b>	3.1.3.6.1	Special omnibus account for broker/ dealer subsidiary or affiliate
3.1.1	<b>Types of Accounts</b>	3.1.3.6.2	Introduced accounts of investment advisors' clients
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	Limited authorization	3.1.4.2.3	Securities registered in name of custodian
	Full authorization	3.1.4.2.4	Legal ownership vested in minor
	Discretionary powers to broker/ dealers	3.1.4.3	Securities registered to beneficiary upon attaining majority
3.1.2.1.3	Payment/delivery and/or duplicate mailing instructions	3.1.4.4	Must be cash account—no margin
	Transfer and ship	3.1.4.5	Securities in account cannot be pledged
	Hold in "street name"	3.1.4.6	Reinvestment of cash proceeds, dividends, and interest within reasonable period
	Transfer and hold in safekeeping	3.1.4.7	Rights and warrants
	Hold cash or forward cash balance on settlement date	3.1.4.7.1	Exercised if sufficient cash is in account; or
	Deliver against payment to a bank or depository	3.1.4.7.2	Liquidated at the market
	Reinvestment plan (reinvesting cash balances)	3.1.4.8	Reimbursement of expenses to custodian
1.2.3.1.4	Signature of and acceptance of account by general securities or options principal of firm	3.1.4.9	Use of custodial property for support of minor
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3.1.2.2.4	Powers of attorney—discretionary accounts	3.1.5.1.2	Contributions
3.1.2.2.5	Options agreement	3.1.5.1.3	Payout period
3.1.2.2.6	Arbitration agreement	3.1.5.1.4	Tax free rollovers
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3.1.3.5.8	Committees or conservators for incompetents		
3.1.3.6	Investment advisors contracts		

3.1.5.4	ERISA		
	Pension plan regulations		when account was opened
	Disclosure requirements	3.1.8.2	Review report of execution
	Reports to employees		Check against order ticket
	Funding policies		Report execution to client
	Minimum funding standards		Report all errors immediately through appropriate firm channels
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	Fiduciary requirements	3.1.8.3	Records of customer transactions
	Fiduciary standards	3.1.9	<b>Primary Functions of Operations and Support Departments (definitional knowledge only)</b>
	Diversification of plan investments		
	Identification of fiduciary	3.1.9.1	Order department
	Loans	3.1.9.2	Purchase and sales department
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	Self dealing transactions—prohibitions and exemptions	3.1.9.4	Cashiering department
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	Freeze assets in account until necessary documents are obtained from administrator, executor, or conservator of estate	3.2.1.1.1	Federal margin requirements for purchases—Regulation T
3.1.7.2	Death or incompetence of a joint tenant		Initial margin requirement
	Presentation of death certificate and inheritance tax waiver, letters testamentary or other required documents before assets in account are released		Reg T excess
	Assignment by surviving/competent tenant and by the legal representative of the deceased/incompetent tenant		Withdrawing Reg T excess
3.1.7.3	Death or incompetence of tenant-in-common		Purchasing additional securities with Reg T excess
	Freeze assets and acceptance of orders until instructions are received from survivor(s) and executor, administrator, or conservator of the estate together with applicable inheritance tax waivers, letters testamentary or other required documents		Depositing securities to meet a Reg T call
3.1.7.4	Death or incompetence of a partner	3.2.1.1.2	Buying power of Reg T excess
	Required authority from surviving/competent partners before executing any further orders		Maintenance margin requirements (NASD Rules of Fair Practice-Section 30 and NYSE Rules 431 and 432)
	Follow stipulations in partnership agreement		Minimum initial equity requirement
3.1.7.5	Death or incompetence of principal on a power of attorney		Minimum maintenance requirement
	Immediate termination of power		Maintenance call
3.1.8	<b>Transactions in Client Accounts</b>		Meeting a maintenance call with a cash deposit
3.1.8.1	Entering an order		Meeting a maintenance call by liquidating securities
	Client identifier	3.2.1.1.3	Calculating the point below which a long account will incur a maintenance call
	RR identifier		Special memorandum account
	Originating office identifier (if applicable)		Purpose
	Security description (symbol)	3.2.1.1.4	Withdrawals of SMA
	Number of shares or bonds		Sales of long positions
	Where traded (NYSE, ASE, Nasdaq, etc.)		Sales in a properly margined account
	Action		Sales in a restricted account
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			Federal initial requirements for short sales
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	account will incur a maintenance call	3.2.7	<b>Mechanics of Short Sales</b>
	Covered short transactions	3.2.7.1	Borrowing securities
	Short-selling power		Securities held by executing broker/dealers
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	Maintenance requirements		Lending at a premium
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	Customer	3.3.1	<b>Section 3—Definitions Under the Act</b>
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3.2.4.4	General rule		Adjustments ex-distribution
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3.3.4.1.2	Rule 15c1-6—Disclosure of interest in distributions	3.4.1.4.3	Approval and review of transactions
3.3.4.1.3	Rule 15c1-7—Discretionary accounts	3.4.1.4.4	Exception
3.3.4.2	Section 15(c)(2)—Fraudulent acts or practices and fictitious quotations	3.4.1.5	Section 21—Books and records (NYSE Rules 406 and 440)
3.3.4.2.1	Rule 15c2-5—Disclosure and other requirements when extending or arranging credit in certain transactions	3.4.1.5.1	Requirements
3.4	<b>National Association of Securities Dealers—Regulations</b>	3.4.1.5.2	Marking of customer order tickets
3.4.1	<b>Rules of Fair Practice</b>	3.4.1.5.3	Customer account information
3.4.1.1	Section 12—Disclosure on confirmations	3.4.1.5.4	Record of written complaints
3.4.1.1.1	Third market confirmations	3.4.1.5.5	“Complaint” defined
3.4.1.2	Section 13—Disclosure of control	3.4.1.5.6	Requirements when using predispute arbitration agreements with customers
		3.4.1.6	Section 45—Customer account statements

## 4.0

**SALES SUPERVISION: GENERAL SUPERVISION  
OF EMPLOYEES: REGULATORY FRAMEWORK OF NASD**

4.1	<b>Securities Exchange Act of 1934 and SEC Rules Thereunder</b>		Rule 15c1-3—Misrepresentation by brokers and dealers as to registration
4.1.1	<b>Section 3—Certain Definitions Under the Act</b>	4.1.5	<b>Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others</b>
4.1.1.1	Section 3(a)(10)—Definition of “security” (NYSE Rule 3)		
4.1.1.2	Section 3(a)(39)—Definition of “statutory disqualification”	4.1.5.1	Section 17(f)—Requirements with respect to missing, lost, counterfeit or stolen securities and fingerprinting of employees of broker/dealers
4.1.1.2.1	Rule 3a11-1—Definition of the term “equity security”		Rule 17f-2—Fingerprinting of securities industry personnel (general requirement)
4.1.1.2.2	Rule 3a12-2—Exemption of certain securities, the income on which is substantially guaranteed by states or political subdivisions thereof	4.2	<b>Insider Trading Regulations</b>
4.1.1.2.3	Rule 3b-5—Non-exempt securities issued under governmental obligations	4.2.1	<b>Insider Trading and Securities Fraud Enforcement Act of 1988</b>
4.1.2	<b>Section 9—Prohibitions against manipulation of security prices</b>	4.2.1.1	Section 3—Civil penalties of controlling persons for illegal insider trading by controlled persons
4.1.2.1	Section 9(a)(1)—Misleading appearance of active trading	4.2.1.1.1	Securities Exchange Act of 1934 Section 15(f)—Policies and procedures to be developed by broker/dealers to prevent misuse of material, non-public information
4.1.2.2	Section 9(a)(2)—Inducing purchase or sale by others		Section 21(d)—Injunctions and prosecution of offenses
4.1.2.3	Section 9(a)(3)—Dissemination of information as to rise or fall of security prices		Section 21A—Civil penalties
4.1.2.4	Section 9(a)(4)—Making false or misleading statements		Section 21A(a)—Authority to impose civil penalties
4.1.2.5	Section 9(a)(5)—Dissemination of information for consideration		Section 21A(b)—Limitations on liability
4.1.2.6	Section 9(a)(6)—Pegging, fixing or stabilizing prices		Section 21A(c)—Authority of Commission
4.1.2.7	Section 9(e)—Liability for unlawful acts or transactions		Section 21A(e)—Authority to award bounties to informants
4.1.3	<b>Section 10—Regulation of the Use of Manipulative and Deceptive Devices</b>		Section 21A(f)—Definition of “profit gained” and “loss avoided”
4.1.3.1	Section 10(b)—Use or employment of manipulative and deceptive devices	4.2.1.1.2	Investment Advisers Act of 1940 Section 204—Annual and other reports
4.1.3.2	Rule 10b-1—Prohibitions with respect to securities exempted from registration	4.2.1.2	Section 204A—Prevention of misuse of non-public information
4.1.3.4	Rule 10b-3—Employment of manipulative and deceptive devices by brokers or dealers	4.2.1.2.1	Section 4—Increases in criminal penalties
4.1.4	<b>Section 15—Registration and Regulation of Brokers and Dealers</b>	4.2.1.3	Securities Exchange Act of 1934 Section 32(a)—Penalties
4.1.4.1	Section 15(a)(1)—Prohibitions relating to unregistered broker/dealers Rule 15a-6—Exemption of certain foreign brokers or dealers	4.2.1.3.1	Section 5—Liability to contemporaneous traders for insider trading
4.1.4.2	Section 15(b)(4)—Sanctions against brokers or dealers		Securities Exchange Act of 1934 Section 20A—Liability to contemporaneous traders for insider trading
4.1.4.3	Section 15(b)(6)—Sanctions for person associated with broker or dealer		Section 20A(a)—Private rights of action based on contemporaneous trading
4.1.4.4	Section 15(c)(1)—Manipulative, deceptive or fraudulent devices or contrivances Rule 15c1-1—Definitions Rule 15c1-2—Fraud and misrepresentation	4.2.2	Section 20A(b)—Limitations on liability
		4.2.2.1	Section 20A(c)—Joint and several liability for communicating
			<b>Securities Exchange Act of 1934 and SEC Rules Thereunder</b>
			Section 10—Regulation of the use of

manipulative and deceptive devices		and representatives	
Section 10(b)—Use or employment of manipulative and deceptive devices	4.3.2.2.3	Section 3—Ineligibility of certain persons for membership or association	
Rule 10b-5—Employment of manipulative and deceptive devices	4.3.2.2.4	Section 4—Definition of disqualification (NYSE Rule 351)	
Insider trading		Article III—Membership	
Material information	4.3.2.3	Section 1—Application for membership	
Non-public information	4.3.2.3.1	Section 3—Executive representative	
Insiders and tippees	4.3.2.3.2	Section 5—Resignation of members	
The Chinese Wall doctrine	4.3.2.3.3	Section 6—Transfer and termination of membership	
<b>4.3 National Association of Securities Dealers—Regulations</b>	4.3.2.3.4	Section 7—Registration of branch offices	
<b>4.3.1 Certificate of Incorporation</b>		Section 8—Vote of branch offices	
4.3.1.1 Third Section—Objects or purposes	4.3.2.3.5	Section 9—District Committees' right to classify branches	
<b>4.3.2 By-Laws</b>	4.3.2.3.6	Article IV—Registered representatives and associated persons (NYSE Rule 345)	
4.3.2.1 Article I—Definitions	4.3.2.3.7	Section 1—Qualification requirements	
4.3.2.2 Article II—Qualifications of members and associated persons	4.3.2.4	Section 2—Application for registration	
4.3.2.2.1 Section 1—Persons eligible to become members and associated persons	4.3.2.4.1	Section 3—Notification by member to Corporation and associated person of termination: amendments to notification	
4.3.2.2.2 Section 2—Authority of Board to adopt qualification requirements	4.3.2.4.2	Section 4—Retention of jurisdiction	
Schedule C	4.3.2.4.3	Article XIII—Disciplinary proceedings	
Part I—Applications for membership		Article XIV—Powers of Board to prescribe sanctions	
Pre-membership interviews	4.3.2.4.4	Article XVI—Limitation of Powers	
Removal of restrictions imposed	4.3.2.5	Section 2—Use of name of Corporation by members	
Changes in ownership or control of existing members	4.3.2.6	<b>Rules of Fair Practice</b>	
Notification to the District Office of certain events	4.2.3.7	Article I—Adoption and applicability	
Part II—Registration of principals	4.2.3.7.1	Section 5—Applicability	
Definition of principal		Article II—Definitions	
Categories of principal registration	4.3.3	Article III—Rules of fair practice	
General securities principal	4.3.3.1	Section 1—Business conduct of members (NYSE Rule 401)	
Limited principals		Prompt receipt and delivery of securities	
Part III—Registration of representative	4.3.3.2	Forwarding of proxy and other materials (NYSE Rule 451)	
Definition of representative	4.3.3.3	Section 2—Recommendations to customers (NYSE Rule 405)	
Categories of representative registration	4.3.3.3.1	Fair dealing with customers	
General securities representative		Recommending speculative low-priced securities	
Limited representatives		Excessive trading activity	
Part IV—Assistant representative—order processing	4.3.3.3.2	Trading in mutual fund shares	
Part V—Disciplinary actions		Fraudulent activity	
Part VI—Persons exempt from registration		Recommending purchases beyond customer capability	
Part VII—Qualification examinations and waiver of requirements		Section 3—Charges for services performed	
Part VIII—Confidentiality of examinations		Section 9—Use of information obtained in a fiduciary capacity	
Resolution of the Board of Governors	4.3.3.3.3	Section 10—Influencing or rewarding employees of others (NYSE Rules 350 and 353)	
Failure to register personnel			
Explanation of the Board of Governors	4.3.3.3.4		
Appointment of executive representative	4.3.3.3.5		
Part XI—Registration of government securities principals			



4.3.3.3.6	Section 11—Payment designed to influence market prices, other than paid advertising		Exemption for transactions in investment company shares and unit investment trusts (NOTE: Section 28 required prior written notification to the employer member; Rule 407 requires the prior written consent of the employer)
4.3.3.3.7	Section 18—Use of fraudulent devices		
4.3.3.3.8	Section 20—Installment or partial payment sales Prohibition Hypothecation		
4.3.3.3.9	Section 25—Dealing with non-members Transactions with non-members Transactions with foreign non-members Non-member broker or dealer Interpretation of the Board of Governors Non-member of the Association Member Expelled dealer Suspended dealer Broker or dealer whose registration is revoked by the SEC Membership resigned or canceled Transactions in exempted securities Transactions on an exchange OTC transactions in securities other than "exempted securities"	4.3.3.3.13	Section 29—Variable contracts of an insurance company Application Definitions Sales charges Receipt of payment Transmittal Selling agreements Redemption
		4.3.3.3.14	Section 32—Fidelity bonds (NYSE Rule 319) Application Authority of Board Appendix C Coverage required Deductible provision Annual review of coverage Notification of change
		4.3.3.3.15	Section 35—Communications with the public (NYSE Rule 472) Definitions Advertisement Sales literature Approval and recordkeeping Filing requirements and review procedures Standards applicable to communications with the public General standards Specific standards Necessary data Recommendations Claims and opinions Hedge clauses Recruiting advertising Periodic investment plans References to regulatory organizations Identification of sources Application of SEC rules Standards applicable to the use and disclosure of the NASD member's name Guidelines regarding communications with the public about collateralized mortgage obligations (CMOs)
4.3.3.3.10	Section 26—Investment companies Application Definitions Conditions for discounts to dealers Sales charge Selling dividends Withhold orders Purchase for existing orders Refund of sales charge Repurchase from dealer Execution of investment company portfolio transactions Dealer concessions Prompt payment for investment company shares Disclosure of deferred sales charges		
4.3.3.3.11	Section 27—Supervision (NYSE Rules 342 and 405) Supervisory system Written procedures Internal inspections Written approval Qualifications investigated Applicant's responsibility Definitions Office of supervisory jurisdiction Branch office	4.3.3.3.16	Section 40—Private securities transactions Applicability Written notice Transactions for compensation Transactions not for compensation Definitions Private securities transaction Selling compensation
4.3.3.3.12	Section 28—Transactions for or by associated persons (NYSE Rule 407) Determine adverse interest Obligations of executing member Obligations of associated persons concerning an account with a member Obligations of associated persons concerning an account with an investment adviser, bank or other financial institution	4.3.3.3.17	Section 43—Outside business activity (NYSE Rule 346) (NOTE: Section 43 requires prior

	written notification by an associated person be made to a member; Rule 346 requires that a written request be made by an associated person and that the member employer provide prior written consent.)	4.3.4.3	Article IV—Imposition of sanctions and costs Section 1—Sanctions Section 2—Cost of proceedings
4.3.3.4	Article IV—Complaints (NYSE Constitution, Article IX)	4.3.4.4	Article VIII—Summary suspension Section 1—Summary action Section 2—Written notification Section 4—Hearing Section 5—Decision Section 6—Review by Board Section 8—Application to Commission for review Section 9—Application to Commission for stay of summary action
4.3.3.4.1	Section 1—Availability to customers of Certificate, By-Laws, Rules and Code of Procedure	4.3.4.5	Article X—Miscellaneous
4.3.3.4.2	Section 2—Complaints by public against members for violations of rules	4.3.5	<b>Code of Arbitration Procedure</b>
4.3.3.4.3	Section 3—Complaints by DBCC	4.3.5.1	Part I—Administrative provisions Section 1—Matters eligible for submission Section 4—Composition and appointment of panels
4.3.3.4.4	Section 4—Complaints by the Board of Governors	4.3.5.2	Part II—Industry and clearing controversies
4.3.3.4.5	Section 5—Reports and inspection of books for purpose of investigating complaints	4.3.5.3	Part III—Uniform code of arbitration Section 12—Required submission (NYSE Rule 600) Section 13—Simplified arbitration (NYSE Rule 601) Section 19—Designation of number of arbitrators Section 20—Composition of panels Section 23—Disclosures required of arbitrators Section 25—Initiation of proceedings Section 31—General provisions governing pre-hearing proceedings Section 35—Interpretation of provisions of code and enforcement of arbitrator rulings Section 41—Awards Paragraph 3744—Failure to act under provisions of Code of Arbitration Procedure
4.3.3.4.6	Resolution of the Board of Governors Suspension of members for failure to furnish information duly requested		
4.3.3.5	Article V—Sanctions for violation of the rules		
4.3.3.5.1	Section 1—Penalties for violation of the rules Interpretation of the Board of Governors The effect of a suspension or revocation of the registration, if any, of a person associated with a member or the barring of a person from further association with any member Resolution of the Board of Governors Notice to membership and press of suspensions, expulsions, revocations, and monetary sanctions and release of certain information regarding disciplinary history of members and their associated persons		
4.3.3.5.2	Section 2—Payment of fines, other monetary sanctions, or costs	4.4	<b>Uniform State Law</b>
4.3.3.5.3	Section 3—Cost of proceedings	4.4.1	<b>Definitions under the Act</b>
4.3.4	<b>Code of Procedure</b>	4.4.1.1	Agent
4.3.4.1	Article I—Application and purpose of Code Section 1—Purpose Section 2—Definitions	4.4.1.2	Broker/dealer
4.3.4.2	Article II—Disciplinary actions by DBCC the Market Surveillance Committee and others Section 1—Issuance of complaints by Committees Section 2—Form, content, notice and withdrawal of complaints Section 4—Request for hearing Section 5—Venue Section 6—Hearing panels Section 8—Decision of committee Section 10—Acceptance, waiver and consent and summary complaint procedures Section 11—Settlement procedure	4.4.2	<b>Registration Requirements for Broker/Dealers</b>
		4.4.2.1	Requirements
		4.4.2.2	Applications
		4.4.2.3	Standards
		4.4.2.4	Terms of registration
		4.4.2.5	Post registration provision
		4.4.3	<b>Fraudulent and Other Prohibited Business Practices Under the Act</b>
		4.4.3.1	Sales and purchases
		4.4.3.2	Prohibited business practices
		4.4.3.3	Regulatory oversight
		4.4.3.4	Criminal penalties



- 4.4.3.5 Civil liabilities
- 4.4.3.6 Scope of the Act
- 4.4.3.7 General provisions

## 5.0 COMPLIANCE WITH FINANCIAL RESPONSIBILITY RULES

5.1	Securities Act of 1934 and SEC Rules Thereunder	5.1.1.2.3	Rule 15c3-3—Customer protection— reserves and custody of securities (NYSE Rule 402)
5.1.1	Section 15—Registration and Regulation of Brokers and Dealers		Definitions
5.1.1.1	Section 15(c)(2)—Fraudulent acts or practices and fictitious accounts		Customer
5.1.1.1.1	Rule 15c2-1—Hypothecation of customers' securities (See Rule 8c-1)		Securities carried for account of a customer
	General provisions		Fully paid securities
	Definitions		Margin securities
	Exemption for cash accounts		Excess margin securities
	Exemption for cleaning house liens		Qualified security
	Exemption for certain liens on securities of non-customers		Funds carried for the account of any customer
	Notice and certification requirements		Physical possession or control
5.1.1.2	Section 15(c)(3)—Financial responsibility of brokers and dealers		Requirement to reduce securities to possession or control—timeliness
5.1.1.2.1	Rule 15c3-1—Net capital requirements for brokers and dealers (NYSE Rules 325 and 326)		Special reserve bank account for the exclusive benefit of customers
5.1.1.2.1.1	Minimum net capital requirements Broker/dealers engaging in a general securities business		Notification of banks
	Broker/dealers who do not generally carry customers' accounts		Withdrawals from the reserve bank account
	Certain additional capital requirements for market makers	5.1.2	Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others
5.1.1.2.1.2	Definitions and general understanding of the following terms	5.1.2.1	Section 17(a)(1)—General requirement for the maintenance of records and report filing as prescribed by SEC
	Aggregate indebtedness	5.1.2.1.1	Rule 17a-3—Records to be made by certain exchange members, brokers and dealers (general understanding of major provisions)
	Net capital including adjustments to net worth for illiquid assets		Blotters or other records of original entry
	Securities differences—treatment when computing net capital		Ledgers or other records reflecting all assets and liabilities
	Haircuts—effect on capital of proprietary positions		Ledger accounts or other records itemizing separately all activity in each cash and margin account
	Additional haircuts on securities with a limited market, unduly concentrated positions and non-marketable securities		Subsidiary ledgers
	Open contractual commitments		Securities record of each long and short position (NYSE Rule 421)
	Treatment of aged fails to deliver		Memorandum of each brokerage order given or received for the purchase or sale of securities
5.1.1.2.1.3	Debt-Equity requirements		Memorandum of each purchase and sale for the account of the firm
5.1.1.2.1.4	Withdrawal of equity capital		Copies of customer confirmations and copies of notices of all other debits and credits for accounts of customers (NYSE Rule 421)
5.1.1.2.1.5	Alternative net capital requirement		Identification data on beneficial owners of all cash and margin accounts
5.1.1.2.1.6	Appendix D—Satisfactory subordination agreements		Identification data on beneficial owners of all cash and margin account
	Definitions		Proof of money balances in all ledger accounts
	Subordinated loan agreement		
	Collateral Value		
	Secured demand note		
	Minimum requirements of subordination agreements		
	Temporary subordinations		
	Filing requirements (general)		
5.1.1.2.2	Rule 15c3-2—Use of customer free credit balances (NYSE Rule 409)		

	Questionnaire or application for employment executed by each "associated person"		requirements of Rule 15c3-1(d).
	Fingerprint records required by Rule 17f-2		Broker/dealers whose aggregate indebtedness is in excess of 1200 per centum of its net capital
	Exemptions		Broker/dealers whose net capital is less than 5% of aggregate debit items computed in accordance with the alternative net capital computation
5.1.2.1.2	Rule 17a-4—Records to be preserved by certain exchange members, brokers and dealers		Broker/dealers who fail to make and keep current the books and records specified in Rule 17a-3
	Requirement for ready accessibility of all records for two years		Broker/dealers who discover or are notified by an independent accountant that material inadequacies exist in their accounting systems
	General type of record to be maintained for six years		
	Maintenance of records with respect to associated persons		
	Preservation of required records on microfilm	5.1.2.1.7	Rule 17a-13—Quarterly security counts to be made by certain exchange members, brokers and dealers (general requirement)
	Outside service bureaus		Requirements for each calendar quarter year
5.1.2.1.3	Rule 17a-5—Reports to be made by certain brokers and dealers (NYSE Rule 418)		Persons to perform or supervise required securities counts
	Filing of monthly and quarterly reports		
	Report filed upon termination of membership interest	5.1.2.2	Section 17(b)—Inspection by commission or appropriate regulatory agency
	Customer statements	5.1.2.3	Section 17(f)—Requirements with respect to missing, lost, counterfeit or stolen securities and fingerprinting of employees of broker/dealers
	Who must furnish the statements		
	Unaudited statements to be furnished		
	Definition of customer	5.1.2.3.1	Rule 17f-1—Requirements for reporting and inquiry with respect to missing, lost, counterfeit or stolen securities
	Annual filing of audited financial statements		Definition of "reporting institution"
	Qualification of accountants		Reporting requirements
	Qualified certified public accountant		Required inquiries
	Designation of accountant		Permissive inquiries
	Independence of accountant		
	Replacement of accountant	5.2	Securities Investor Protection Act and SIPC Rules Thereunder
	Audit objectives		
	Accountant's reports—general provisions	5.2.1	Membership requirements of SIPC
	Technical requirements	5.2.2	SIPC Fund
	Representations as to the audit	5.2.3	Protection of customers
	Opinions to be expressed		Determination of need for protection
	Exceptions		Court action
	Definitions of "audit"		SIPC participation
	"accountant's report" and "certified"	5.2.4	Special provisions of a liquidation proceeding
	Accountant's report on material inadequacies		Purpose
	Extensions and exemptions		Notice and claims
	Notification of changes of fiscal year		Payment of customers
	Filing requirements		Customer related property
5.1.2.1.4	Rule 17a-8—Financial recordkeeping and reporting of currency and foreign transactions	5.2.5	SIPC advances
			Advances for customers' claims
5.1.2.1.5	Rule 17a-10—Report on income and expenses (general requirement and relation to FOCUS)	5.2.6	Other advances
		5.2.7	Discretionary advances
5.1.2.1.6	Rule 17a-11—Notification provisions for brokers and dealers		Direct payment procedure
	Broker/dealers whose net capital declines below the minimum amount required	5.2.7.1	SIPC rules
	Broker/dealers whose capital structure fails to meet the debt/equity		Accounts of separate customers
			Individual accounts
			Accounts held by executors or administrators
			Accounts held by a corporation, partnership or unincorporated association

	Trust accounts		Sharing in accounts: extent permissible
	Joint accounts		Explanation of the Board of Governors
5.2.7.2	Prohibited acts		Section 22—Disclosure of financial condition
	Failure to pay assessment or file reports		Requirement of members to furnish recent financial statement to other members
	Engaging in business after appointment of trustee or initiation of direct payment procedure		Section 31—Securities “failed to receive” and “failed to deliver”
	Concealment of assets; false statements or claims		Appendix B
5.2.7.3	Advertising by members of SIPC protection		Section 38—Regulation of activities of members experiencing financial and/or operational difficulties
	Member of displaying SIPC membership		Restrictions on member’s business expansion when its net capital falls below certain parameters for more than 15 consecutive days
5.3	<b>National Association of Securities Dealers—Regulations</b>		Member may be required to reduce its business
5.3.1	<b>By-Laws</b>		Section 39—Approval of change in exempt status under SEC Rule 15c3-3
5.3.1.1	Article VI—Dues, Assessments and Other Charges		Loss of 15c3-3(k) exemption when member conducts business that will disqualify it from the exemption without the prior written approval of the NASD
	Schedule A (general knowledge of types of income assessed and fee levied)		
	Section 3—Suspension or cancellation of membership for non-payment of dues		
5.3.2	<b>Rules of Fair Practice</b>		
5.3.2.1	Article III—Rules of Fair Practice		
	Section 19—Customers’ securities or funds		
	Improper use	5.3.3	<b>Code of Procedure</b>
	Authorization to lend—pledging or lending related to indebtedness	5.3.3.1	Article V—Limitation and approval procedures under Article III, Sections 38 and 39 of the Rules of Fair Practice
	Separate lending authorization designating securities		Procedures under Article III, Section 38 of the Rules of Fair Practice
	Segregation and identification of securities		
	Prohibition against guarantees		

## RECORDKEEPING REQUIREMENTS UNDER SEC RULE 17a-3

Section/Item	Currency Requirements <sup>a</sup>	Maintenance Requirements <sup>b</sup>
1. Subparagraph (a)(1) — Blotters a) Purchases and sales of securities b) Receipts and deliveries of securities	Blotters must reflect transactions as of trade date and are to be prepared no later than the following business day.	Six (6) years, the first two (2) years in an easily accessible place.
2. Subparagraph (a)(2) a) General ledger	The general ledger must be posted as frequently as may be necessary to determine compliance with the net capital rule; but in any event not less frequently than once each month.	Six (6) years, the first two (2) years in an easily accessible place.
3. Subparagraph (a)(3) a) Customer ledger accounts	Customer ledger accounts must be posted no later than settlement date.	Six (6) years, the first two (2) years in an easily accessible place.
4. Subparagraph (a)(4) a) Securities in transfer b) Dividends and interest received c) Securities borrowed and securities loaned d) Monies borrowed and monies loaned e) Securities failed to receive and failed to deliver f) Long and short stock record differences	a-e) Subsidiary ledgers are to be no later than two days after the date of securities or monies movement.  e) Fail ledgers must be posted no later than two (2) days subsequent to the settlement date.  f) Stock record differences are to be posted no later than seven (7) business days after the date of discovery.	a-f) Three (3) years, the first two (2) years in an easily accessible place.
5. Subparagraph (a)(5) a) Position record	The position record must be posted no later than the business day after settlement date or the date of securities movement.	Six (6) years, the first two (2) years in an easily accessible place.
6. Subparagraphs (a)(6) and (a)(7) a) Agency sales tickets b) Principal sales tickets	These records are to be prepared before the execution of the transaction.	Three (3) years, the first two (2) years in an easily accessible place.
7. Subparagraph (a)(8) a) Confirmations b) Comparisons	These records are to be prepared no later than the business day after the transaction day.	Three (3) years, the first two (2) years in an easily accessible place.
8. Subparagraph (a)(9) a) Cash account record b) Margin account record	Customer account records must be prepared before transactions are effected in an account.	Six (6) years after the closing of such account.
9. Subparagraph (a)(10) a) Option records	Option records are to be prepared no later than the business day following the date the option was written.	Three (3) years, the first two (2) years in an easily accessible place.
10. Subparagraph (a)(11) a) Trial balance	Trial balances must be prepared not later than ten (10) business days after the end of an accounting period.	Three (3) years, the first two (2) years in an easily accessible place.
11. Subparagraph (a)(12) a) Associated person's application	An associated person's employment application should be prepared a/or prior to commencement of employment.	Three (3) years after termination of employment.

<sup>a</sup> See Securities Exchange Act Release No. 10756, dated April 26, 1974.<sup>b</sup> See SEC Rule 17a-4, as amended December 17, 1975.

## SAMPLE QUESTIONS

The questions which appear below are similar in format and content to questions on the examination. These sample questions, however, is not intended to exactly parallel either the level of difficulty or the subject coverage of the actual examination. Their purpose here is to assist candidates and training personnel in preparing for the types of multiple choice questions which will appear on the examination.

## ANSWERS TO SAMPLE QUESTIONS

1. (B)
2. (D)
3. (D)
4. (A)
5. (C)

## SAMPLE TEST QUESTIONS

1. A customer wishes to purchase securities in a margin account. In order for the broker/dealer to borrow money with the margined securities, the customer must sign which of the following?
  - (A) Power of attorney
  - (B) Hypothecation agreement
  - (C) Discretionary account agreement
  - (D) Maintenance agreement
2. Under what conditions may an NASD member firm

sell "hot issue" securities to one of its non-registered employees?

- (A) The amount of the purchase is small and not disproportionate to the size of the issue.
- (B) The employee promises in writing to hold the securities for two years.
- (C) The transaction is consistent with the employee's normal investment practice.
- (D) Under no circumstances

3. Each of the following is a violation of NASD rules EXCEPT:

- (A) "backing away"
- (B) interpositioning
- (C) free-riding and withholding
- (D) marketing to the market

4. While engaged in a distribution, a managing underwriter may do each of the following EXCEPT

- (A) solicit purchases through an updated research report
- (B) accept unsolicited buy orders
- (C) effect stabilizing transactions
- (D) solicit purchase through use of a prospectus

5. Broker/dealer report on lost or stolen U.S. Government and agency securities are to be filed with the:

- (A) NASD
- (B) Designated Examining Authority
- (C) Securities Information Center
- (D) Uniform Practice Committee